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E.O. 12958: N/A

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SUBJECT: GOA RESCINDS WATER CONCESSION FROM FRENCH FIRM AND
RE-NATIONALIZES SERVICE

REF: A. 05 BUENOS AIRES 1451

[1](#)B. 05 BUENOS AIRES 1519

[1](#)C. BUENOS AIRES 0560

[1](#)1. (U) This message is sensitive but unclassified, and not
for Internet distribution.

[1](#)2. (U) The GOA on March 21 announced that it was rescinding
privately-owned Aguas Argentinas' thirty year concession to
provide water and sewer services to Buenos Aires city and its
surroundings in Buenos Aires Province. Minister of Federal
Planning Julio De Vido broke the news at a press conference
during which he accused Aguas Argentinas of non-compliance
with the terms of its concession that "placed the health of
the people in danger," citing elevated levels of nitrates in
the local tap water. Buenos Aires city Mayor Jorge Telerman
and Buenos Aires Province Governor Felipe Sola joined De Vido
on the podium. De Vido also announced the creation of a new
utility to replace Aguas Argentinas. That company, Aguas y
Sanamientos Argentino SA (AySA), will be ninety percent
state-owned, with the remaining ten percent of shares held by
its workers.

[1](#)3. (SBU) French water and sewer treatment company Suez holds
a controlling interest in Aguas Argentinas. Like many
providers of public utilities, Suez has had a tumultuous
recent history in Argentina (Reftel A). The Buenos Aires
concession was one of three that Suez had been operating in
Argentina via separate subsidiaries: Aguas Argentinas in
Buenos Aires Province; Aguas Santa Fe in Santa Fe Province;
and Aguas Cordoba in Cordoba Province. All three
subsidiaries suffered from the pesification of dollar
contracts and the freezing of tariffs in 2002, and each
subsidiary is a claimant in separate cases before the World
Bank's International Center for the Settlement of Investment
Disputes (ICSID), where claims against Argentina outnumber
those against any other country (Reftel B). Suez sold its
interests in Aguas Santa Fe in June 2005, and had announced
in September 2005 that it was preparing to withdraw from
Buenos Aires after it failed to make progress toward tariff
hikes during lengthy negotiations with the GOA. Suez reached
a provisional agreement with the Province of Cordoba and
plans to remain in that province. Suez will continue to
press its USD 1.7 billion ICSID claim against the GOA,

according to press reports.

Comment

14. (SBU) The GOA portrayed its takeover of the Aguas Argentinas concession as a bold move to address public health concerns and punish a provider that it accuses of neglecting investment and providing substandard service. What actually prompted the action was the fact that the GOA was unable to find a private company willing to take on the concession after Suez's departure (Note: No U.S. company has expressed any interest in this concession. End Note.). This is becoming a familiar pattern, whereby the conditions the GOA attaches to the re-privatization of public utilities frighten off prospective investors, leaving the GOA no choice but to run those entities itself. This occurred in both its postal system (Correos) and a vital cargo railroad (the Belgrano Cargo Railroad) in recent years. This move will also further cloud an investment climate still unsettled from President Nestor Kirchner's recent ban on beef exports (Reftel C). The good news is that most of the privatizations completed in the 1990s remain in place. The bad news is that when one public service provider departs, there are no others willing to take its place.
LLORENS